

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Fort Gratiot	County St. Clair
Audit Date 12/31/04	Opinion Date 3/25/05	Date Accountant Report Submitted to State: 6/7/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue		City Port Huron	State MI
		ZIP 48060	
Accountant Signature <i>Stewart, Beauvais & Whipple</i>			Date 6/7/05

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**ANNUAL FINANCIAL STATEMENTS
And Supplementary Information**

**FOR THE YEAR ENDED
DECEMBER 31, 2004**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

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CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the
Charter Township of Fort Gratiot
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Charter Township of Fort Gratiot, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Fort Gratiot's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Fort Gratiot, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the basic financial statements, the Township adopted Governmental Accounting Statement Board Statement No. 34 and related statements as of and for the year ended December 31, 2004. This resulted in a change in the Township's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2005 on our consideration of the Charter Township of Fort Gratiot's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 41 through 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Fort Gratiot's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

March 25, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of Fort Gratiot's 2004 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

Governmental activities – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

Business-type activities – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

Governmental funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary funds - Services for which the Township charges customers a fee are generally reported in the Water and Sewer Fund, a proprietary fund. Proprietary funds, like the government-wide statements, provide both long and short-term financial information.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of 19.8 million. This is an increase over 2004 of \$ 847,216. Government-type activities comprise \$6.2 million, and business-type activities make up \$13.6 million of the total net assets. In a condensed format, the table below shows net assets as of the December 31, 2004. Future reports will provide comparative data.

In Thousands

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 6,435	\$ 1,012	\$ 7,447
Restricted assets	61	3,240	3,301
Noncurrent assets	<u>2,361</u>	<u>11,223</u>	<u>13,584</u>
Total assets	<u>8,857</u>	<u>15,475</u>	<u>24,332</u>
Liabilities			
Current liabilities	2,343	323	2,666
Liabilities payable from			
Restricted assets	-	216	216
Long-term liabilities	<u>362</u>	<u>1,336</u>	<u>1,698</u>
Total liabilities	<u>2,705</u>	<u>1,875</u>	<u>4,580</u>
Net Assets			
Invested in capital assets –			
Net of related debt	2,157	10,053	12,210
Restricted	1,483	2,904	4,387
Unrestricted	<u>2,512</u>	<u>643</u>	<u>3,155</u>
Total net assets	<u>\$ 6,152</u>	<u>\$ 13,600</u>	<u>\$ 19,752</u>

The Township governmental activities experienced a net change in assets of \$376,859. The main reasons are that the general and fire funds experienced revenues over expenditures of \$256,527 and \$31,770 respectively. In addition, capital outlays and principal payment on long-debt exceed depreciation by \$109,153.

The following table shows the changes in net assets for 2004. Future reports will provide comparative data for the statement of activities.

In Thousands	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 1,304	\$ 2,296	\$ 3,600
Operating grants and contributions	47	-	47
Capital grants and contributions	68	796	864
General revenue:			
Property taxes	1,147	-	1,147
Unrestricted grants	864	-	864
Unrestricted investment earnings	85	35	120
Total Revenue	<u>3,515</u>	<u>3,127</u>	<u>6,642</u>
Program Expenses			
General government	910	-	910
Public safety	1,357	-	1,357
Public works	737	-	737
Recreation and cultural	109	-	109
Other activities	8	-	8
Interest on Debt	17	-	17
Water and sewer	-	2,657	2,657
Total Program Expenses	<u>3,138</u>	<u>2,657</u>	<u>5,796</u>
Changes in net assets	<u>\$ 377</u>	<u>\$ 470</u>	<u>\$ 847</u>

Governmental Activities

Revenues for governmental activities totaled \$3,515,122 in 2004. Of this amount, \$2,056,610 was received from taxes or special service assessments, which was an increase of \$73,406 from the prior year. The next largest revenue sources was state shared revenue of 749 thousand, a decrease of 78 thousand from 2003, and charges for services of 411 thousand, a decrease of 34 thousand.

Business-type Activities

The Township has one business-type activity, the water and sewer operations. Total revenues including interest income was \$3,127,661 and expenses were \$2,657,304 for a change in net assets of \$470,357. Most of this increase is a result of a new special assessment of \$355,000 assessed for water and sewer improvement in the Brice Rd. area.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General fund ended 2004 with a fund balance of \$2,753,406, with \$70,889 reserved for street lighting and \$1,682,901 designated for specific purposes. The designations at December 31, 2004 were for accrued vacation and sick of \$82,901, \$700,000 for budget stabilization and \$900,000 for capital improvements. The general fund balance increased \$256,527 from the prior year mainly as a result the Township Hall expenditure being \$143,000 less than budgeted and the budgeted drains at large expenditures for the 209 Drain being recorded in prior years. The Townships other major governmental funds had the following revenues over (under) expenditures as follows:

- Public Improvement Fund had expenditures over revenues of 39,993 as a result of purchasing the rights to property for the new Township/County park.
- Fire Fund had revenues over expenditure of \$31,770 mainly as a result of wages being less then budgeted
- The Police Fund had revenues in excess of expenditures of \$15,517 main as a result of the cost from the County being less then anticipated.
- The Garbage Collection Fund had expenditures in excess of revenues of \$3,943, which was covered by a transfer from the General Fund

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The following significant amendments were made during the year.

- The Drain budget was amended three times during the year for total amendments of \$135,000 to cover the cost of the Simpson Drain and the Number 209 Storm Drain and Sewer Line.
- The Township Hall was amended by \$29,900 to account for the increase in property and liability insurance and life insurance.
- Capital Outlay was increased by \$50,100 for roof repairs, building designed, driveway, air conditioner, and ordinance codification.

The Public Improvement Fund was amended by \$45,000 for the purchase of the rights to the Township/County parks property.

Business-type Activities

As indicated earlier the Township only has one business-type activity, the water and sewer operations. Total revenues amounted to \$3,127,661 for 2004 and expenses were \$2,657,304 for an increase in net assets of \$470,357. Most of this increase is a result of new special assessments for the Brice Rd. project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$13.6 million dollars invested in capital assets for its government and business-type activities (net of accumulated depreciation) as of December 31, 2004. The investment is a capital asset includes land, land improvements, buildings, machinery and equipment, vehicles and water and sewer lines. During the year the Township added \$1,071,065 of capital assets, \$165,671 in the government-activities and \$905,394 in the business-type activities. Of the governmental activities \$90,000 was for the right to the waterfront property for the new Township/County park, with the remaining purchases for the Township roof repair, building design, driveway and air conditioner. Most of the business-type activities were a result of replacing pump stations.

	Governmental Activities	Business-type Activities	Total
Land	\$ 659,780	\$ -	\$ 659,780
Land improvements	591,602	-	591,602
Building and Improvements	675,888	141,136	817,024
Equipment	1,755,326	779,818	2,535,144
Water and sewer	-	17,465,004	17,465,004
Construction in progress	-	283,875	283,875
	3,682,596	18,669,833	22,352,429
Accumulated depreciation	(1,321,002)	(7,447,108)	(8,768,110)
	<u>\$ 2,361,594</u>	<u>\$ 11,222,725</u>	<u>\$ 13,584,319</u>

Additional information on the Township's capital assets can be found in Note 8.

Long-Term Debt

At December 31, 2004 the Township's had \$1,883,968 in long-term debt compared to \$1,757,440 at December 31, 2003, an increase of \$126,528 from the prior year. During the year the Township sold \$360,000 of Special Assessment Bonds. The following table shows the long-term debt at December 31, 2004:

	Governmental Activities	Business-Type Activities
Special Assessment Bond	\$ 75,000	\$ 800,000
G.O. Bonds	-	675,000
Capital Leases	204,620	-
Compensated Absences	<u>82,901</u>	<u>46,447</u>
	<u>362,521</u>	<u>1,521,447</u>

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For 2005, the Township Board adopted a balance general fund budget with estimated revenues and expenditures of \$1,462,500. This is approximately a 4.9% increase from the 2004 budget. Although local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2005 budget does not anticipate any further cuts. The largest increase in expenditures is expected in the liability and health insurance areas.

During the first part of 2005, the Township Board increased water and sewer rates by approximately 7% to offset the increase in costs received from the City of Port Huron. The Township is in the final phase of upgrading the sanitary sewage pump stations, with three remaining stations with an estimated cost of \$465,000.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to and our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 385-4489.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 3,872,888	\$ 579,791	\$ 4,452,679
Receivables (net of allowance)	2,508,718	459,552	2,968,270
Internal balance	53,404	(53,404)	-
Inventory	-	26,328	26,328
Restricted Assets -			
Cash and cash equivalents	-	2,313,270	2,313,270
Investments	60,861	-	60,861
Special assessment receivable	-	900,855	900,855
Prepaid expenses	-	26,000	26,000
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	659,780	283,875	943,655
Assets being depreciated	1,701,814	10,938,850	12,640,664
Total Assets	<u>8,857,465</u>	<u>15,475,117</u>	<u>24,332,582</u>
LIABILITIES:			
Payables and accrued liabilities	360,493	322,556	683,049
Accrued interest	12,048	-	12,048
Advances and deposits	59,305	-	59,305
Deferred revenue	1,910,816	-	1,910,816
Liabilities Payable From Restricted Assets			
Accounts Payable	-	12,555	12,555
Bonds payable (current)	-	185,000	185,000
Accrued interest	-	18,013	18,013
Non-current liabilities			
Due within one year	96,074	-	96,074
Due in more than one year	266,447	1,336,447	1,602,894
Total Liabilities	<u>2,705,183</u>	<u>1,874,571</u>	<u>4,579,754</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	2,156,974	10,053,476	12,210,450
Restricted			
Acquisition/construction of capital assets	871,317	1,356,940	2,228,257
Debt retirement	186,529	1,546,866	1,733,395
Cemetery perpetual care			
Nonexpendable	60,861	-	60,861
Other	364,033	-	364,033
Unrestricted	2,512,568	643,264	3,155,832
Total Net Assets	<u>\$ 6,152,282</u>	<u>\$ 13,600,546</u>	<u>\$ 19,752,828</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 910,016	\$ 87,838	\$ -	\$ 67,580
Public Safety	1,356,661	749,373	7,964	-
Public Works	736,597	458,480	-	-
Recreation and Culture	109,407	2,602	38,627	-
Other Activities	8,197	6,142	-	-
Interest on Long Term Debt	17,385	-	-	-
Total governmental activities	3,138,263	1,304,435	46,591	67,580
Business type activities				
Utilities (Water/Sewer)	2,657,304	2,296,043	-	796,639
Total Primary Government	5,795,567	3,600,478	46,591	864,219

General revenues:
Property taxes
Grants and contribution not-
restricted to specific programs
Unrestricted investment income
Total general revenues and transfers

Change in net assets

Net assets at beginning of year as restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$(754,598)	\$ -	\$(754,598)
(599,324)	-	(599,324)
(278,117)	-	(278,117)
(68,178)	-	(68,178)
(2,055)	-	(2,055)
(17,385)	-	(17,385)
(1,719,657)	-	(1,719,657)
<u>-</u>	<u>435,378</u>	<u>435,378</u>
<u>(1,719,657)</u>	<u>435,378</u>	<u>(1,284,279)</u>
1,146,628	-	1,146,628
864,487	-	864,487
85,401	34,979	120,380
<u>2,096,516</u>	<u>34,979</u>	<u>2,131,495</u>
376,859	470,357	847,216
<u>5,775,423</u>	<u>13,130,189</u>	<u>18,905,612</u>
<u>\$ 6,152,282</u>	<u>\$ 13,600,546</u>	<u>\$ 19,752,828</u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Public Improvement</u>	<u>Fire</u>	<u>Police</u>
ASSETS				
Current assets -				
Cash and cash equivalents	\$ 2,326,843	\$ 497,560	\$ 55,526	\$ 162,994
Receivables -				
Property taxes	502,550	-	-	530,858
Interest and accounts	54,854	-	-	-
Special assessments	13,013	-	503,167	-
Due from other governmental units -				
Federal/State	261,136	-	-	-
Due from other funds	354,638	53,003	6,114	-
Advance to other funds	-	53,018	-	-
	<u>3,513,034</u>	<u>603,581</u>	<u>564,807</u>	<u>693,852</u>
Restricted assets -				
Investments	-	-	-	-
Total Assets	<u><u>\$ 3,513,034</u></u>	<u><u>\$ 603,581</u></u>	<u><u>\$ 564,807</u></u>	<u><u>\$ 693,852</u></u>
Liabilities:				
Accounts payable	\$ 18,263	-	3,194	42,350
Accrued liabilities	1,783	-	26,440	-
Advances and deposits	59,305	-	-	-
Local				
Due to other funds	172,212	349,087	-	-
Due to other governmental units	-	-	-	-
Deferred revenue	508,065	-	503,167	530,858
Total Liabilities	<u>759,628</u>	<u>349,087</u>	<u>532,801</u>	<u>573,208</u>
Fund Balances:				
Reserved -				
Street Lighting	70,889	-	-	-
Perpetual Care	-	-	-	-
Debt Services	-	-	-	-
Capital Projects	-	-	-	-
Unreserved -				
Designated -				
Accrued Vacation and Sick	82,901	-	-	-
Budget Stabilization	700,000	-	-	-
Capital Improvement	900,000	-	-	-
Undesignated -				
General Fund	999,616	-	-	-
Special Revenue Funds	-	254,494	32,006	120,644
Total Equity	<u>2,753,406</u>	<u>254,494</u>	<u>32,006</u>	<u>120,644</u>
Total Liabilities and Fund Equity	<u><u>\$ 3,513,034</u></u>	<u><u>\$ 603,581</u></u>	<u><u>\$ 564,807</u></u>	<u><u>\$ 693,852</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Garbage Collection</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ 829,965	\$ 3,872,888
-	249,834	1,283,242
-	-	54,854
368,726	24,580	909,486
-	-	261,136
-	166,098	579,853
-	-	53,018
<u>368,726</u>	<u>1,270,477</u>	<u>7,014,477</u>
<u>-</u>	<u>60,861</u>	<u>60,861</u>
<u>\$ 368,726</u>	<u>\$ 1,331,338</u>	<u>\$ 7,075,338</u>
\$ -	\$ 16,049	\$ 79,856
-	2,580	30,803
-	-	59,305
-	-	-
-	58,168	579,467
-	249,834	249,834
<u>368,726</u>	<u>-</u>	<u>1,910,816</u>
<u>368,726</u>	<u>326,631</u>	<u>2,910,081</u>
-	-	70,889
-	60,861	60,861
-	186,529	186,529
-	616,823	616,823
-	-	82,901
-	-	700,000
-	-	900,000
-	-	999,616
<u>-</u>	<u>140,494</u>	<u>547,638</u>
<u>-</u>	<u>1,004,707</u>	<u>4,165,257</u>
<u>\$ 368,726</u>	<u>\$ 1,331,338</u>	<u>\$ 7,075,338</u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Fund Balances - total governmental funds	\$	4,165,257
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets		3,682,596
Accumulated depreciation	(1,321,002)

Long - term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

Bonds payable	(75,000)	
Compensated absences	(82,901)	
Capital lease	(204,620)	
Accrued interest	(12,048)	(374,569)

Net Assets of governmental activities	\$	<u><u>6,152,282</u></u>
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Public Improvement	Fire	Police
Revenues:				
Taxes	\$ 396,415	\$ -	\$ -	\$ 511,035
Licenses and permits	17,393	-	-	-
Intergovernmental -				
Federal/State	756,179	-	-	7,964
Local	-	-	-	-
Charges for services	130,857	-	26,000	-
Fines and forfeits	7,406	-	-	-
Interest and rent	62,512	5,007	1,809	4,720
Other	116,374	45,000	473,568	-
Total Revenues	<u>1,487,136</u>	<u>50,007</u>	<u>501,377</u>	<u>523,719</u>
Expenditures:				
Current -				
General Government	795,302	-	-	-
Public Safety	37,207	-	431,764	508,202
Public Works	137,301	-	-	-
Recreation and Cultural	73,404	-	-	-
Other Activities	8,197	-	-	-
Capital Outlay	66,684	90,000	5,586	-
Debt Service				
Principal	-	-	19,982	-
Interest	-	-	12,275	-
Total Expenditures	<u>1,118,095</u>	<u>90,000</u>	<u>469,607</u>	<u>508,202</u>
Excess of revenues over (under) expenditures	<u>369,041</u>	<u>(39,993)</u>	<u>31,770</u>	<u>15,517</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(112,514)	-	-	-
Total Other Financing Sources (Uses)	<u>(112,514)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>256,527</u>	<u>(39,993)</u>	<u>31,770</u>	<u>15,517</u>
Fund Balances at beginning of year	2,374,164	294,487	236	105,127
Prior period adjustment	<u>122,715</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at beginning of year as restated	<u>2,496,879</u>	<u>294,487</u>	<u>236</u>	<u>105,127</u>
Fund Balances at end of year	<u>\$ 2,753,406</u>	<u>\$ 254,494</u>	<u>\$ 32,006</u>	<u>\$ 120,644</u>

The accompanying notes are an integral part of these financial statements.

Garbage Collection	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 239,178	\$ 1,146,628
-	-	17,393
-		764,143
-	61,129	61,129
-	254,368	411,225
-	-	7,406
-	16,753	90,801
356,175	25,280	1,016,397
<u>356,175</u>	<u>596,708</u>	<u>3,515,122</u>
-	70,815	866,117
-	304,238	1,281,411
360,118	239,178	736,597
-	721	74,125
-	-	8,197
-	28,954	191,224
-	50,000	69,982
-	7,488	19,763
<u>360,118</u>	<u>701,394</u>	<u>3,247,416</u>
<u>(3,943)</u>	<u>(104,686)</u>	<u>267,706</u>
3,943	108,571	112,514
-	-	(112,514)
<u>3,943</u>	<u>108,571</u>	<u>-</u>
-	3,885	267,706
-	1,000,822	3,774,836
-	-	122,715
-	1,000,822	3,897,551
<u>\$ -</u>	<u>\$ 1,004,707</u>	<u>\$ 4,165,257</u>

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2004**

Net change in fund balances - total governmental funds		\$	267,706
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			165,671
Depreciation expense		(135,292)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	69,982		
Decrease in compensated absences	6,414		
Decrease in accrued interest	<u>2,378</u>		<u>78,774</u>
Change in net assets of governmental activities		\$	<u><u>376,859</u></u>

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan
STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
DECEMBER 31, 2004

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 579,791
Accounts receivable	459,552
Inventory	26,328
Total Current Assets	<u>1,065,671</u>

Restricted Assets:

Cash and cash equivalents	2,313,270
Special assessment receivable	900,855
Prepaid expense	26,000
	<u>3,240,125</u>

Property, Plant and Equipment:

Buildings	141,136
Equipment	779,818
Mains and extensions	17,465,004
Construction in progress	283,875
	<u>18,669,833</u>
Less - accumulated depreciation	(7,447,108)
	<u>11,222,725</u>

Total Assets	<u>15,528,521</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	317,229
Accrued expenses	5,327
Due to other funds	386
Total Current Liabilities	<u>322,942</u>

Current Liabilities - (Payable from restricted assets):

Accounts payable	12,555
Bonds payable (current portion)	185,000
Accrued interest	18,013
	<u>215,568</u>

Long-Term Liabilities (less current portions):

Bonds payable	1,290,000
Advance from other funds	53,018
Accrued vacation and sick	46,447
Total Long-Term Liabilities	<u>1,389,465</u>
Total Liabilities	<u>1,927,975</u>

NET ASSETS:

Investment in capital assets, net of related debt	10,053,476
Reserved -	
Equipment Replacement	1,356,940
Debt Retirement	1,546,866
Unrestricted	<u>643,264</u>
Total Net Assets	<u>\$ 13,600,546</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2004****Operating Revenues:**

Licenses and permits	\$ 2,475
Charges for services - user charges	2,250,574
Penalty on delinquent accounts	27,009
Other revenue	15,985
Total Operating Revenues	<u>2,296,043</u>

Operating Expenses:

Salaries and fringes	548,824
Water purchases	859,875
Sewer plant charges	604,345
Supplies	48,324
Utilities	35,904
Repairs and maintenance	49,397
Gas and oil	15,918
Professional services	19,389
Other	47,681
Depreciation	351,982
Total Operating Expenses	<u>2,581,639</u>

Operating Income (Loss) (285,596)

Non-Operating Revenues (Expenses):

Tap and privilege fees	249,070
Special assessments	359,044
Interest earned on -	
Special assessments and privilege fees	48,525
Cash and investment revenue	34,979
Interest expense and paying agent fees	(75,665)
Total Non-Operating Revenues (Expenses)	<u>615,953</u>

Net Income before contributions 330,357

Capital Contributions 140,000

Net Income 470,357

Net assets at beginning of year 9,998,100

Prior period adjustment 3,132,089

Net Assets at beginning of year as restated 13,130,189

Net Assets end of year \$ 13,600,546

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

Cash Flows From Operating Activities:

Cash receipts from customers	\$ 2,274,106
Cash payments to suppliers	(1,751,698)
Cash payments to employees	(544,025)
Net Cash Used by Operating Activities	<u>(21,617)</u>

Cash Flows From Capital and Related

Financing Activities:

Special assessments/tap and privilege fees	466,439
Bond payments	(234,945)
Bond proceeds	360,000
Capital contributions	140,000
Acquisition/construction/disposal of capital assets	(905,394)
Net Cash Used by Capital and Related Financing Activities	<u>(173,900)</u>

Cash Flows From Investing Activities:

Interest earned	<u>83,504</u>
Net Decrease in Cash and Cash	
Equivalents for the year	(112,013)
Cash and Cash Equivalents at Beginning of Year	<u>3,005,074</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,893,061</u></u>

Reconciliation of Net Loss to

Net Cash Used by Operating Activities:

Operating loss for the year	\$(285,596)
Adjustments to reconcile operating loss	
to net cash used by operating activities -	
Depreciation	351,982
Change in assets and liabilities:	
Receivables	(21,937)
Prepaid expenses	(26,000)
Inventory	(2,220)
Accounts payable/accrued expenses	(1,797)
Due to other funds	(38,972)
Vacation and sick time	2,923
Net Cash Used By Operating Activities	<u><u>\$(21,617)</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 2,008,910
Prepaid expense	<u>32,710</u>
Total Assets	<u><u>\$ 2,041,620</u></u>
 LIABILITIES:	
Accrued liabilities	20,527
Undistributed taxes	<u>2,021,093</u>
Total Liabilities	<u><u>\$ 2,041,620</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Charter Township of Fort Gratiot, Michigan, a Municipal Corporation, was organized as a Township on June 13, 1866, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on August 21, 1979, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 16 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 10,800 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2003 levy in 2004). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year, except for the Blue Water Area Transportation Commission, which is levied in December and recorded in the current year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Improvement Fund – is a special revenue fund used to account for non-tax revenue set aside for statutory public improvements.

Fire Fund – is a special revenue fund used to account for taxes and other related revenues restricted for fire service of the Township.

Police Fund – is a special revenue fund used to account for a tax levy for the purpose of providing police protection for the Township.

Garbage Collection Fund – is a special revenue fund used to account for a special assessments levy for the purpose of providing garbage and rubbish collection for the Township.

The Township reports the following major proprietary fund:

Utilities (Water and Sewer Fund) – is used to account for the treatment and distribution of water and sanitary sewer services to residential and commercial users.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Additionally, the Township reports the following fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Fund – is used to account for accumulation of resources for and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds and Trust Funds).

Agency Funds – are used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Fund are charges to customers for sale and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources, as they are needed.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits. The investment trusts have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonably approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Property Tax Calendar –

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2003 levy is recognized in 2004, except for the transportation mileage, which is recognized in the year of levy).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to January 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

	Primary <u>Government</u>
Land improvements	3-60
Buildings and improvements	5-60
Utility systems	60
Machinery and equipment	3-25

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

The Township Supervisor and the Clerk prepare and submit the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont'd):

The Township's approved budgets were adopted at the activity (department) level in the General Fund and the total expenditure level for the Special Revenue Fund. However, for control purposes all budgets are maintained at the object (account) level. These are the legally enacted levels under the State of Michigan Uniform Budgeting and Accounting Act.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended December 31, 2004, the Township incurred expenditures in the General and Special Revenue Funds, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Public Works –			
Street Lights	84,050	89,744	5,694
Capital Outlay	65,350	66,684	1,334
Transfers Out	86,628	112,514	25,886
Public Improvement Fund –			
Capital Outlay	45,000	90,000	45,000
Inspections Fund			
Public Safety	284,743	306,586	21,843

The Township did not adopt a budget for the Garbage Collection Fund, a Special Revenue Fund.

Other –

The Township did not have certifications from all of the financial institutions it deals with.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of December 31, 2004, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits -			
Cash on hand -			
Petty Cash	\$ 600	\$ -	\$ 600
Deposits with Financial Institutions	<u>6,024,632</u>	<u>2,008,910</u>	<u>8,033,542</u>
Total Deposits	<u>6,025,232</u>	<u>2,008,910</u>	<u>8,034,142</u>
Investments -			
Stocks and Bonds	60,861	-	60,861
Investment Trust Funds	<u>740,717</u>	<u>-</u>	<u>740,717</u>
Total Investments	<u>801,578</u>	<u>-</u>	<u>801,578</u>
	<u>\$ 6,826,810</u>	<u>\$ 2,008,910</u>	<u>\$ 8,835,720</u>
Reconciliation To Combined Balance Sheet			
Reported as Cash and Cash Equivalents -			
Petty Cash	\$ 600	\$ -	\$ 600
Deposits	6,024,632	2,008,910	8,033,542
Investment Trust Funds	<u>740,717</u>	<u>-</u>	<u>740,717</u>
Total Cash and Cash			
Equivalents Reported on			
Combined Balance Sheet	<u>6,765,949</u>	<u>2,008,910</u>	<u>8,774,859</u>
Reported as Investments -			
Stocks and Bonds	<u>60,861</u>	<u>-</u>	<u>60,861</u>
Grand Total Combined Balance Sheet	<u>\$ 6,826,810</u>	<u>\$ 2,008,910</u>	<u>\$ 8,835,720</u>

Deposits –

The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004 the bank balance of the Township's deposits were \$8,821,836 of which \$400,000 was FDIC insured with the balance \$8,421,836 uninsured and uncollateralized.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 3 – DEPOSITS AND INVESTMENTS – (cont'd):

Investments –

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Township to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Investments may be classified into three categories to give an indication of the level of risk assumed by the Township. Category 1 includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the Township's name.

	Categories			Carrying	Market
	1	2	3	Amount	Value
Stock and bonds	\$ -	\$ -	\$ 60,861	\$ 60,861	\$ 60,861
Unclassified Investments - Investment Trusts				<u>740,717</u>	<u>740,717</u>
				<u>\$ 801,578</u>	<u>\$ 801,578</u>

As of December 31, 2004, the Township has \$740,717 invested in Investment Trust Funds, which are managed by a bank's trust department as investments of the primary government. The trust invests primarily in short-term maturity U.S. Government backed or guaranteed securities, which are held by the trust in its name. These funds have not been considered to be susceptible to investment risk categories. The investment trusts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 4 – TAXES:

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2004 levy has a State Equalized Value (SEV) of \$457,890,603 and a taxable value of \$381,559,886.

The millage rates levied by the Township were .7175 for General Operating, .6394 for the Blue Water Area Transportation service and 1.3373 for Police protection. In addition the Township levied the following assessments:

	2003 Levy (2004 Revenue)
Fire Service	\$ 470,938
Lighting District	80,239
Garbage Collection	356,175

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-Type Activities
Taxes	\$ 1,283,242	\$ -
Special Assessments	909,486	900,855
Accounts and Interest	54,854	459,552
Intergovernmental	261,136	-
	<u>2,508,718</u>	<u>1,360,407</u>

Governmental fund report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	Unavailable	Unearned
General Fund -		
Property Taxes	\$ -	\$ 1,033,408
Special Assessments	-	877,408
	<u>-</u>	<u>\$ 1,910,811</u>

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of December 31, 2004:

Due to/From Other Funds –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Public Improvement	\$ 349,087
	Inspections	5,165
	Utilities	386
Public Improvement	Park Improvement	53,003
Fire	General	6,114
Park Improvement	General	17,000
Municipal Building	General	<u>149,098</u>
		<u>\$ 579,853</u>

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Garbage Collection Fund	General Fund	\$ 3,943
Cemetery Fund	General Fund	38,571
Inspection Fund	General Fund	<u>70,000</u>
Total Transfers		<u>\$ 112,514</u>

NOTE 7 - INTERFUND ADVANCES:

Interfund advances described as Advances To/From other fund, reflect long-term amounts due or owed to a particular fund by another fund of the township. These amounts include current portion of long-term loans. A summary of these balances at December 31, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Improvement Revolving Fund	Utilities Fund	<u>\$ 53,018</u>

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2004 was as follows:

	Jan. 1, 2004 Balance	Additions	Deletions/ Adjustments	Dec. 31, 2004 Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 569,780	\$ 90,000	\$ -	\$ 659,780
Capital assets, being depreciated:				
Land improvements	574,987	16,615	-	591,602
Buildings and improvements	624,857	51,031	-	675,888
Machinery and equipment	<u>1,747,301</u>	<u>8,025</u>	<u>-</u>	<u>1,755,326</u>
Total capital assets being depreciated	<u>2,947,145</u>	<u>75,671</u>	<u>-</u>	<u>3,022,816</u>
Less accumulated depreciation for:				
Land improvements	81,738	29,035	-	110,773
Building and improvements	262,028	14,420	-	276,448
Machinery and equipment	<u>841,944</u>	<u>91,837</u>	<u>-</u>	<u>933,781</u>
Total accumulated depreciation	<u>1,185,710</u>	<u>135,292</u>	<u>-</u>	<u>1,321,002</u>
Total capital assets being depreciated, net	<u>1,761,435</u>	<u>(59,621)</u>	<u>-</u>	<u>1,701,814</u>
Governmental activities capital assets, net	<u>\$ 2,331,215</u>	<u>\$ 30,379</u>	<u>\$ -</u>	<u>\$ 2,361,594</u>
 Business Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 192,934	\$ 90,941	\$ -	\$ 283,875
Capital assets, being depreciated:				
Buildings	126,136	15,000	-	141,136
Utility systems		16,560,470	791,578	112,956
Equipment	<u>946,314</u>	<u>7,875</u>	<u>(51,541)</u>	<u>779,818</u>
Total capital assets being depreciated	<u>17,632,920</u>	<u>814,453</u>	<u>61,415</u>	<u>18,385,958</u>
Less accumulated depreciation	<u>(7,156,541)</u>	<u>(351,982)</u>	<u>(61,415)</u>	<u>(7,447,108)</u>
Total capital assets being depreciated, net	<u>10,476,379</u>	<u>462,471</u>	<u>-</u>	<u>10,938,850</u>
Business activities capital assets, net	<u>\$ 10,669,313</u>	<u>\$ 553,412</u>	<u>\$ -</u>	<u>\$ 11,222,725</u>

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 8 - CAPITAL ASSETS – (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 44,567
Public Safety	71,841
Recreation and Culture	<u>18,884</u>
Total depreciation expense-governmental activities	<u>\$ 135,292</u>
Business-type activities:	
Water and Sewer Operation	<u>\$ 351,982</u>

NOTE 9 - LONG-TERM DEBT:

The following is a summary of changes in long-term liabilities (including current portion) of the Primary Government for the year ended December 31, 2004:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
<u>Governmental Activities:</u>					
Bonds payable – 1990 Special Assessment Bonds	\$ 125,000	\$ -	\$ 50,000	\$ 75,000	\$ 75,000
Fire truck capital lease	224,602	-	19,982	204,620	21,074
Accrued vacation and sick pay	<u>89,315</u>	<u>-</u>	<u>6,414</u>	<u>82,901</u>	<u>-</u>
	<u>438,917</u>	<u>-</u>	<u>76,396</u>	<u>362,521</u>	<u>96,074</u>
<u>Business-type Activities:</u>					
1995 General Obligation Limited Tax Bonds	\$ 275,000	\$ -	\$ 25,000	\$ 250,000	\$ 50,000
1995 Special Assessment Bonds	530,000	-	90,000	440,000	90,000
1999 General Obligation Limited Tax Bonds	470,000	-	45,000	425,000	45,000
2004 Special Assessment Bonds	-	360,000	-	360,000	-
Accrued Vacation and Sick Pay	<u>43,524</u>	<u>2,923</u>	<u>-</u>	<u>46,447</u>	<u>-</u>
	<u>1,318,523</u>	<u>362,923</u>	<u>160,000</u>	<u>1,521,447</u>	<u>185,000</u>
	<u>\$ 1,757,440</u>	<u>\$ 362,923</u>	<u>\$ 236,396</u>	<u>\$ 1,883,968</u>	<u>\$ 281,074</u>

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

Bonds Payable-

The Township issued special assessment bonds for the purpose of highway widening and improvements. The bonds are to be repaid from special assessment charges. The \$750,000 1990 Special Assessment Limited Tax General Obligations Bonds, dated October 1, 1990, are due in a final installment of \$75,000 on April 1, 2005, with interest of 7.10 percent, payable semi-annually.

\$ 75,000

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 9 – LONG-TERM DEBT – (cont'd):

Fire Truck Lease-

The Township entered into a lease purchase agreement for a fire truck in the amount of \$224,602 on January 15, 2003. Payments are due in annual installments of \$32,257, which includes interest of 5.45 percent payable annually through January 15, 2012.

204,620

\$ 279,620

Utilities System-

The Township has also issued four bond issues for the purpose of water and sewer main extensions. The bonds are to be repaid from special assessments and capital charges.

The \$495,000 1995 General Obligation Limited Tax Bonds, dated February 1, 1995, due in annual installments of \$50,000 through October 1, 2009, with interest ranging from 5.50 to 5.90 percent, payable semi-annually.

\$ 250,000

The \$1,240,000 1995 Special Assessment Bonds, dated February 1, 1995, due in annual installments ranging from \$85,000 to \$90,000 through October 1, 2009, with interest ranging from 5.50 to 5.90 percent, payable semi-annually.

440,000

The \$595,000 1999 General Obligation Limited Tax Bonds, dated November 1, 1999, due in annual installments ranging from \$40,000 to \$45,000 through April 1, 2014, with interest ranging from 4.65 to 5.50 percent, payable semi-annually.

425,000

The \$360,000 2004 Special Assessment Bonds, dated November 15, 2004, due in annual installments ranging from \$15,000 to \$25,000 through April 1, 2024, with interest ranging from 3.9 to 4.6 percent, payable semi-annually.

360,000

\$ 1,475,000

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 9 – LONG-TERM DEBT – (cont'd):

Accrued Vacation and Sick Pay -

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$82,901 as well as the Enterprise Fund portion of \$46,447 has been recorded in the government-wide financial statements as a long-term liability.

\$ 129,348

\$ 3,278,047

Annual Debt Requirements:

The annual requirements to pay the debt outstanding at December 31, 2004, for the following bonds, contracts and leases, (excluding accrued vacation and sick) of the Primary Government:

Year	Governmental Activities				Business-Type Activities			
	G.O. Bond		Lease		G.O. Bonds		Limited Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 75,000	\$ 2,663	\$ 21,074	\$ 11,182	\$ 185,000	\$ 59,806	\$ -	\$ 13,013
2006	-	-	22,226	10,031	185,000	49,991	15,000	14,533
2007	-	-	23,441	8,816	185,000	39,991	15,000	13,948
2008	-	-	24,722	7,535	175,000	29,930	15,000	13,363
2009	-	-	26,073	6,184	175,000	20,110	15,000	12,778
2010-2014	-	-	87,084	9,687	210,000	29,083	85,000	54,723
2015-2019	-	-	-	-	-	-	100,000	35,875
2020-2024	-	-	-	-	-	-	115,000	13,665
	<u>\$ 75,000</u>	<u>\$ 2,663</u>	<u>\$ 204,620</u>	<u>\$ 53,435</u>	<u>\$ 1,115,000</u>	<u>\$ 228,911</u>	<u>\$ 360,000</u>	<u>\$171,898</u>

The above amortization does not include the contracts payable to the City of Port Huron since the entire amount has not been drawn; therefore a repayment schedule has not been determined.

NOTE 10 - SEWAGE DISPOSAL SYSTEM AGREEMENT:

The Charter Township of Fort Gratiot does not operate or own a Sanitary Sewage Disposal Plant; instead, the Township/County has entered into an agreement with the City of Port Huron to accept and dispose of the Township's sanitary sewage. The agreement provides, among other things, that the City shall reserve a capacity of 8.02 million gallons per day (MGD) in the sewage treatment plant, for which the Township has made a lump sum payment. Further, the Township shall reimburse the City for its respective share of the annual operating costs, including capital purchases and debt retirement.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 10 - SEWAGE DISPOSAL SYSTEM AGREEMENT – (cont'd):

In connection, the City of Port Huron has issued \$10,220,000 of bonds to make improvements and renovations to the plant. As noted above, the cost to repay these bonds are included in the annual operation cost from the City. Should the Township terminate the contract, the Township would be responsible for their share of the outstanding bonds, which at December 31, 2004, would amount to \$1,394,079.

NOTE 11 - WATER SUPPLY SYSTEM AGREEMENT:

The Charter Township of Fort Gratiot does not own a water filtration plant; instead, the Township/County has entered into an agreement with the City of Port Huron to provide the Township's water supply. Under the agreement, dated October 16, 1968, the Township/County agreed to purchase various minimum quantities at such rates as the City may establish and is reasonable, plus a metered service charge. The contract is for an indefinite period but it may be terminated by either party upon one year written notice.

NOTE 12 – DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits to substantially all full-time employees through a deferred contribution plan. In a deferred contribution plan, benefits depend solely on amounts contributed to the plan plus any investment earnings. The Township contributes 9% of the employee's base compensation. In addition, each employee can make non-deductible, voluntary contributions of 5-10%. All contributions, both employer and employee, become 100% vested at the time of the contribution.

For the year ended December 31, 2004, the Township contributed \$76,550, and the employees contributed \$44,830.

NOTE 13 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 12, the Charter Township of Fort Gratiot provides 60% of the health insurance premium for any employee that retires with a minimum of 10 years of continued employment with the Township. Expenditure for post-retirement health care benefits are recognized on a pay-as-you-go basis and amounted to \$30,136 for five employees for 2004.

NOTE 14 - RESTRICTED ASSETS:

The restricted assets of \$60,861 in the Cemetery Fund for perpetual care and \$3,240,125 in the Utilities Fund are for capital improvements/debt retirement.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 15 - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance/Retained Earnings -

Fund Balance/Retained Earnings has been reserved in the various fund types to indicate that a portion of the Fund Balance/Retained Earnings is not available but reserved for specific purposes:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Fund Balance -		
General Fund	Street Lights	\$ 70,889
Special Revenue Fund - Cemetery	Perpetual Care	60,861
Debt Service Fund - M-25	Debt Service	186,529
Capital Projects Fund - Municipal Building	Capital Projects	<u>616,823</u>
		<u>\$ 935,102</u>
Retained Earnings -		
Enterprise Fund -	Equipment Replacement	\$ 1,356,940
	Debt Retirement	<u>1,546,866</u>
		<u>\$ 2,903,806</u>

Designated Fund Balance -

The Township board has the power to designate or set aside all or a portion of unreserved Fund Balance for specific purposes. The following is a summary of Board Designations at December 31, 2004:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General Fund -	Capital Improvements	\$ 900,000
	Budget Stabilization	700,000
	Accrued Vacation and Sick	<u>82,901</u>
		<u>\$ 1,682,901</u>

NOTE 16 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverage's be exceeded.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 17 - PRIOR PERIOD ADJUSTMENT:

Governmental Funds:

A prior period adjustment of \$122,715 was made in the General Fund to recognize nonexchange state shared revenues collected within 60 days, therefore increasing fund balance as reported at December 31, 2003 from \$2,374,164 to \$2,496,879.

Proprietary Funds:

A prior period adjustment of \$3,116,679 was recorded to the Utilities Fund retained earnings at December 31, 2003, to discontinue the reporting of contributed capital as a separate component of fund equity as required by GASB No. 33. In addition, a prior period adjustment of \$15,410 was recorded to the Utilities Fund retained earnings at December 31, 2003, to record construction in progress. Therefore, net assets as reported at December 31, 2003 increased from \$9,998,100 to \$13,130,189.

NOTE 18 - RESTATEMENTS:

As of and for the year ended December 31, 2004, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 33 - *Accounting and Financial Reporting for Nonexchange Transactions*
- No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*
- No. 36 - *Recipient Reporting for Certain Shared Nonexchange Revenues - An Amendment of GASB No. 33*
- No. 37 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- No. 38 - *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

CHARTER TOWNSHIP OF FORT GRATIOT, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2004

NOTE 18 – RESTATEMENTS – (cont’d):

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended December 31, 2004, the following restatements were made to net assets at December 31, 2003:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of general, special revenue, debt service and capital projects funds as of 12/31/03	\$ 3,774,836
Prior period adjustment (See note 17)	<u>122,715</u>
	3,897,551
Add: capital assets	3,516,925
Less: accumulated depreciation on capital assets	(1,185,710)
Less: notes/leases payable	(349,602)
Less: accrued interest on bond/notes payable	(14,426)
Less: accrued compensated absences	<u>(89,315)</u>
Net Assets at 12/31/03	<u>\$ 5,775,423</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 377,000	\$ 377,000	\$ 396,415	\$ 19,415
Licenses and permits	-	-	17,393	17,393
Intergovernmental	750,000	750,000	756,179	6,179
Charges for services	87,500	137,500	130,857	(6,643)
Fines and forfeits	15,000	15,000	7,406	(7,594)
Interest and rent	74,400	74,400	62,512	(11,888)
Other revenues	90,000	130,000	116,374	(13,626)
Total Revenues	<u>1,393,900</u>	<u>1,483,900</u>	<u>1,487,136</u>	<u>3,236</u>
Expenditures:				
General Government -				
Legislative	10,780	10,780	10,780	-
Supervisor	49,500	49,500	49,500	-
Elections	30,000	30,000	26,711	3,289
Assessor	48,000	51,000	46,912	4,088
Clerk's Department	50,450	50,450	50,450	-
Board of Review	1,725	1,725	1,625	100
Treasurer's Department	62,500	62,500	62,500	-
Township Hall	705,300	735,200	591,824	143,376
	<u>958,255</u>	<u>991,155</u>	<u>840,302</u>	<u>150,853</u>
Less: Reimbursement from other funds	<u>-</u>	<u>-</u>	<u>(45,000)</u>	<u>45,000</u>
	<u>958,255</u>	<u>991,155</u>	<u>795,302</u>	<u>195,853</u>
Public Safety -				
Planning Commission	25,100	29,340	23,827	5,513
Zoning Board	14,907	14,907	13,380	1,527
	<u>40,007</u>	<u>44,247</u>	<u>37,207</u>	<u>7,040</u>
Public Works -				
Street lights	84,050	84,050	89,744	(5,694)
Road maintenance and construction	50,000	50,000	47,483	2,517
Drains at large	50,000	185,000	74	184,926
	<u>184,050</u>	<u>319,050</u>	<u>137,301</u>	<u>181,749</u>
Health and Welfare -				
Ambulance Service	<u>12,296</u>	<u>12,296</u>	<u>8,197</u>	<u>4,099</u>

Continued

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Expenditures - (cont'd):				
Recreation and Cultural -				
Parks and Recreation	\$ 30,600	\$ 30,600	\$ 17,468	\$ 13,132
Buildings and Grounds	66,814	66,814	55,936	10,878
	<u>97,414</u>	<u>97,414</u>	<u>73,404</u>	<u>24,010</u>
Capital Outlay	<u>15,250</u>	<u>65,350</u>	<u>66,684</u>	<u>(1,334)</u>
Total Expenditures	<u>1,307,272</u>	<u>1,529,512</u>	<u>1,118,095</u>	<u>411,417</u>
Excess of revenues over (under) expenditures	86,628	(45,612)	369,041	414,653
Other Financing Uses:				
Transfers out	<u>(86,628)</u>	<u>(86,628)</u>	<u>(112,514)</u>	<u>(25,886)</u>
Excess of revenues over (under) expenditures and other uses	<u>-</u>	<u>(132,240)</u>	<u>256,527</u>	<u>388,767</u>
Fund Balance at beginning of year	2,374,164	2,374,164	2,374,164	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>122,715</u>	<u>122,715</u>
Fund Balance at beginning of year as restated	<u>2,374,164</u>	<u>2,374,164</u>	<u>2,496,879</u>	<u>122,715</u>
Fund Balance at end of year	<u>\$ 2,374,164</u>	<u>\$ 2,241,924</u>	<u>\$ 2,753,406</u>	<u>\$ 511,482</u>

Concluded

CHARTER TOWNSHIP OF FORT GRATIOT**St. Clair County, Michigan**

**PUBLIC IMPROVEMENT FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Interest on investments	5,000	10,000	5,007	(4,993)
Donation	-	-	45,000	45,000
	<u>5,000</u>	<u>10,000</u>	<u>50,007</u>	<u>40,007</u>
Expenditures:				
Capital Outlay - Capital Outlay	-	45,000	90,000	(45,000)
Excess of revenues over (under) expenditures	5,000	(35,000)	(39,993)	(4,993)
Fund Balance at beginning of year	<u>294,487</u>	<u>294,487</u>	<u>294,487</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 299,487</u>	<u>\$ 259,487</u>	<u>\$ 254,494</u>	<u>\$(4,993)</u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Assessments			\$ 470,938	
Charges for services			26,000	
Donation			1,000	
Interest			1,809	
Other			1,630	
	<u>\$ 485,346</u>	<u>\$ 485,346</u>	<u>501,377</u>	<u>\$ 16,031</u>
Expenditures:				
Public Safety -				
Salaries	337,488	337,488	312,328	25,160
Fringe benefits	61,000	61,000	59,089	1,911
Supplies	7,000	7,000	9,042	(2,042)
Uniforms	6,000	6,000	6,495	(495)
Gas and oil	3,000	3,000	3,494	(494)
Communications	2,700	2,700	2,585	115
Utilities	6,600	6,600	6,967	(367)
Repairs and maintenance	17,500	17,500	24,033	(6,533)
Education and training	2,500	2,500	2,020	480
Miscellaneous	3,700	3,700	5,711	(2,011)
Capital Outlay	5,600	5,600	5,586	14
Debt Service	32,258	32,258	32,257	1
	<u>485,346</u>	<u>485,346</u>	<u>469,607</u>	<u>15,739</u>
Excess of revenues over expenditures	-	-	31,770	31,770
Fund Balance at beginning of year	<u>236</u>	<u>236</u>	<u>236</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 236</u>	<u>\$ 236</u>	<u>\$ 32,006</u>	<u>\$ 31,770</u>

CHARTER TOWNSHIP OF FORT GRATIOT**St. Clair County, Michigan****POLICE FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Property taxes	\$ 510,828	\$ 510,828	\$ 511,035	\$ 207
Intergovernmental -				
State	7,200	7,200	7,964	764
Interest and rent -				
Interest on investment	3,500	3,500	4,720	1,220
	<u>521,528</u>	<u>521,528</u>	<u>523,719</u>	<u>2,191</u>
Expenditures:				
Public Safety -				
Contracted services	<u>526,652</u>	<u>526,652</u>	<u>508,202</u>	<u>18,450</u>
Excess of revenues over (under)				
expenditures	(5,124)	(5,124)	15,517	20,641
Fund Balance at beginning of year	<u>105,127</u>	<u>105,127</u>	<u>105,127</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 100,003</u></u>	<u><u>\$ 100,003</u></u>	<u><u>\$ 120,644</u></u>	<u><u>\$ 20,641</u></u>

SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS DECEMBER 31, 2004

Special Revenue Funds

	Cemetery	Blue Water Area Transportation	Park Improvement	Inspections
ASSETS				
Current assets -				
Cash and cash equivalents	\$ 6,440	\$ -	\$ 126,664	\$ 50,480
Receivables -				
Current and delinquent property taxes	-	249,834	-	-
Special Assessments	-	-	-	-
Due from other funds	-	-	17,000	-
	<u>6,440</u>	<u>249,834</u>	<u>143,664</u>	<u>50,480</u>
Restricted assets -				
Investments	<u>60,861</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u><u>\$ 67,301</u></u>	<u><u>\$ 249,834</u></u>	<u><u>\$ 143,664</u></u>	<u><u>\$ 50,480</u></u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 33	\$ -	\$ -	\$ 380
Accrued liabilities	949	-	-	560
Due to other funds	-	-	53,003	5,165
Due to other governmental units	-	249,834	-	-
Total Liabilities	<u>982</u>	<u>249,834</u>	<u>53,003</u>	<u>6,105</u>
Fund Balance:				
Reserved -				
Debt Services	-	-	-	-
Capital Projects	-	-	-	-
Perpetual Care	60,861	-	-	-
Unreserved -				
Undesignated	<u>5,458</u>	<u>-</u>	<u>90,661</u>	<u>44,375</u>
Total Fund Balance	<u>66,319</u>	<u>-</u>	<u>90,661</u>	<u>44,375</u>
Total Liabilities and Fund Balance	<u><u>\$ 67,301</u></u>	<u><u>\$ 249,834</u></u>	<u><u>\$ 143,664</u></u>	<u><u>\$ 50,480</u></u>

Debt Service Fund	Capital Projects Fund	
M-25 Debt Service	Municipal Building	Total
\$ 178,656	\$ 467,725	\$ 829,965
-	-	249,834
24,580	-	24,580
-	149,098	166,098
<u>203,236</u>	<u>616,823</u>	<u>1,270,477</u>
-	-	60,861
<u>\$ 203,236</u>	<u>\$ 616,823</u>	<u>\$ 1,331,338</u>

\$ 15,636	\$ -	\$ 16,049
1,071	-	2,580
-	-	58,168
-	-	249,834
<u>16,707</u>	<u>-</u>	<u>326,631</u>

186,529	-	186,529
-	616,823	616,823
-	-	60,861
-	-	140,494
<u>186,529</u>	<u>616,823</u>	<u>1,004,707</u>
<u>\$ 203,236</u>	<u>\$ 616,823</u>	<u>\$ 1,331,338</u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2004

	Special Revenue Funds			
	Cemetery	Blue Water Area Transportation	Park Improvement	Inspections
Revenues:				
Taxes	\$ -	\$ 239,178	\$ -	\$ -
Intergovernmental -				
Local	-	-	38,627	22,502
Charges for services	27,065	-	-	227,303
Interest and rent	3,943	-	1,518	486
Other	2,700	-	-	-
Total Revenues	<u>33,708</u>	<u>239,178</u>	<u>40,145</u>	<u>250,291</u>
Expenditures:				
Current -				
General Government	70,815	-	-	-
Public Safety	-	-	-	304,238
Public Works	-	239,178	-	-
Recreation and Cultural	-	-	721	-
Capital Outlay	5,470	-	-	2,348
Debit Service				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Total Expenditures	<u>76,285</u>	<u>239,178</u>	<u>721</u>	<u>306,586</u>
Excess of revenues over (under) expenditures	(42,577)	-	39,424	(56,295)
Other Financing Sources:				
Transfers In	<u>38,571</u>	<u>-</u>	<u>-</u>	<u>70,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	(4,006)	-	39,424	13,705
Fund Balances at beginning of year	<u>70,325</u>	<u>-</u>	<u>51,237</u>	<u>30,670</u>
Fund Balances at end of year	<u>\$ 66,319</u>	<u>\$ -</u>	<u>\$ 90,661</u>	<u>\$ 44,375</u>

Debt Service Fund	Capital Projects Fund	
M-25 Debt Service	Municipal Building	Total
\$ -	\$ -	\$ 239,178
-	-	61,129
-	-	254,368
4,513	6,293	16,753
22,580	-	25,280
<u>27,093</u>	<u>6,293</u>	<u>596,708</u>
-	-	70,815
-	-	304,238
-	-	239,178
-	-	721
21,136	-	28,954
50,000	-	50,000
7,488	-	7,488
<u>78,624</u>	<u>-</u>	<u>701,394</u>
(51,531)	6,293	(104,686)
<u>-</u>	<u>-</u>	<u>108,571</u>
(51,531)	6,293	3,885
<u>238,060</u>	<u>610,530</u>	<u>1,000,822</u>
<u>\$ 186,529</u>	<u>\$ 616,823</u>	<u>\$ 1,004,707</u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

CEMETERY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Charges for services -				
Grave openings	\$ 27,000	\$ 27,000	\$ 26,450	\$(550)
Other	1,360	1,360	615	(745)
Interest and rent -				
Interest on investments	5,500	5,500	3,943	(1,557)
Other revenue -				
Sale of lots	6,000	6,000	2,700	(3,300)
	<u>39,860</u>	<u>39,860</u>	<u>33,708</u>	<u>(6,152)</u>
Expenditures:				
General Government -				
Salaries	43,580	43,580	44,669	(1,089)
Fringe benefits	20,651	20,651	18,767	1,884
Professional fees	600	600	600	-
Utilities	800	800	416	384
Repairs and maintenance	6,700	6,700	5,583	1,117
Miscellaneous	800	800	780	20
Capital Outlay	5,300	5,300	5,470	(170)
	<u>78,431</u>	<u>78,431</u>	<u>76,285</u>	<u>2,146</u>
Excess of revenues under expenditures	(38,571)	(38,571)	(42,577)	(4,006)
Other Financing Sources:				
Transfers in	<u>38,571</u>	<u>38,571</u>	<u>38,571</u>	<u>-</u>
Excess of revenues and other financing sources under expenditures	-	-	(4,006)	(4,006)
Fund Balance at beginning of year	<u>70,325</u>	<u>70,325</u>	<u>70,325</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 70,325</u>	<u>\$ 70,325</u>	<u>\$ 66,319</u>	<u>\$(4,006)</u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

BLUE WATER AREA TRANSPORTATION FUND**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 240,454	\$ 240,454	\$ 239,178	\$ (1,276)
Expenditures:				
Public Works - Transportation	240,454	240,454	239,178	1,276
Excess of revenues over expenditures	-	-	-	-
Fund Balance at beginning of year	-	-	-	-
Fund Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CHARTER TOWNSHIP OF FORT GRATIOT**St. Clair County, Michigan****PARK IMPROVEMENT FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Intergovernmental -				
Local	\$ 36,659	\$ 36,659	\$ 38,627	\$ 1,968
Interest and rent -				
Interest on investment	1,300	1,300	1,518	218
	<u>37,959</u>	<u>37,959</u>	<u>40,145</u>	<u>2,186</u>
Expenditures:				
Recreation and Cultural	<u>37,959</u>	<u>37,959</u>	<u>721</u>	<u>37,238</u>
Excess of revenues over expenditures	-	-	39,424	39,424
Fund Balance at beginning of year	<u>51,237</u>	<u>51,237</u>	<u>51,237</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 51,237</u></u>	<u><u>\$ 51,237</u></u>	<u><u>\$ 90,661</u></u>	<u><u>\$ 39,424</u></u>

CHARTER TOWNSHIP OF FORT GRATIOT

St. Clair County, Michigan

INSPECTIONS FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Building permits			\$ 132,442	
Electrical permits			48,446	
Mechanical permits			27,640	
Plumbing permits			18,775	
Intergovernmental - Local			22,502	
Interest			486	
	<u>\$ 205,486</u>	<u>\$ 242,486</u>	<u>250,291</u>	<u>\$ 7,805</u>
Expenditures:				
Public Safety -				
Salaries	147,732	182,732	181,219	1,513
Fringe benefits	58,053	59,653	63,562	(3,909)
Supplies	2,000	2,000	1,901	99
Transportation	6,000	6,400	6,113	287
Communications	3,000	3,000	2,845	155
Administrative fees	-	-	45,000	(45,000)
Education and training	5,000	5,000	2,191	2,809
Miscellaneous	20,458	20,458	1,407	19,051
Capital Outlay -	5,500	5,500	2,348	3,152
	<u>247,743</u>	<u>284,743</u>	<u>306,586</u>	<u>(21,843)</u>
Excess of revenues under expenditures	(42,257)	(42,257)	(56,295)	(14,038)
Other financing sources:				
Transfer in	42,257	42,257	70,000	27,743
Excess of revenues and other financing sources over expenditures	-	-	13,705	13,705
Fund Balance at beginning of year	<u>30,670</u>	<u>30,670</u>	<u>30,670</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 30,670</u>	<u>\$ 30,670</u>	<u>\$ 44,375</u>	<u>\$ 13,705</u>

FIDUCIARY FUNDS

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 1,408,421	\$ 14,655,763	\$ 14,055,274	\$ 2,008,910
Prepaid expense	21,671	288,784	277,745	32,710
Due from other funds	39,013	1,839,373	1,878,386	-
	<u>\$ 1,469,105</u>	<u>\$ 16,783,920</u>	<u>\$ 16,211,405</u>	<u>\$ 2,041,620</u>
Liabilities:				
Accrued payroll taxes and employee benefits	\$(3,140)	\$ 603,482	\$ 579,815	\$ 20,527
Due to other funds	75,548	2,040,764	2,116,312	-
Due to other governmental units	-	10,066,909	10,066,909	-
Undistributed taxes and interest	1,396,697	624,396	-	2,021,093
	<u>\$ 1,469,105</u>	<u>\$ 13,335,551</u>	<u>\$ 12,763,036</u>	<u>\$ 2,041,620</u>

CHARTER TOWNSHIP OF FORT GRATIOT
St. Clair County, Michigan

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
CURRENT TAX COLLECTION FUND				
Assets:				
Cash and cash equivalents	\$ 1,403,861	\$12,665,506	\$ 12,048,274	\$ 2,021,093
Liabilities:				
Due to other governmental units	-	10,025,453	10,025,453	-
Due to other funds	7,164	2,015,657	2,022,821	-
Undistributed taxes and interest	1,396,697	624,396	-	2,021,093
	<u>\$ 1,403,861</u>	<u>\$12,665,506</u>	<u>\$ 12,048,274</u>	<u>\$ 2,021,093</u>
OTHER TAX COLLECTION FUND				
Assets:				
Cash and cash equivalents	\$ -	\$ 47,429	\$ 47,429	\$ -
Liabilities:				
Due to other governmental units - local	\$ -	\$ 41,456	\$ 41,456	\$ -
Due to other funds	-	5,973	5,973	-
	<u>\$ -</u>	<u>\$ 47,429</u>	<u>\$ 47,429</u>	<u>\$ -</u>
IMPREST PAYROLL FUND				
Assets:				
Cash and cash equivalents	\$ 4,560	\$ 1,942,828	\$ 1,959,571	\$(12,183)
Prepaid expense	21,671	288,784	277,745	32,710
Due from other funds	39,013	1,839,373	1,878,386	-
	<u>\$ 65,244</u>	<u>\$ 4,070,985</u>	<u>\$ 4,115,702</u>	<u>\$ 20,527</u>
Liabilities:				
Accrued payroll taxes and employee benefits	\$(3,140)	\$ 603,482	\$ 579,815	\$ 20,527
Due to other funds	68,384	19,134	87,518	-
	<u>\$ 65,244</u>	<u>\$ 622,616</u>	<u>\$ 667,333</u>	<u>\$ 20,527</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Supervisor and Members of
The Township Board
Charter Township of Fort Gratiot
St. Clair County, Michigan

We have audited the financial statements of the Charter Township of Fort Gratiot, Michigan, as of and for the year ended December 31, 2004, and have issued our report thereon, dated March 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Charter Township of Fort Gratiot, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We have, however, noted certain other matters that we reported to management of the Charter Township of Fort Gratiot, Michigan's in a separate letter dated March 25, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Township of Fort Gratiot, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, administration and the Township Board, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

Certified Public Accountants

March 25, 2005

To the Supervisor and Members of
the Township Board
Charter Township of Fort Gratiot
St. Clair County, Michigan

As you know, we have recently completed our audit of the basic financial statements of the Charter Township of Fort Gratiot as of and for the year ended December 31, 2004. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Township's recordkeeping system or compliance with laws and regulations. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in our ***Report on Internal Accounting Controls***, these weaknesses were not considered material in relation to the basic financial statements of the Charter Township of Fort Gratiot.

Journal entries should be approved by someone other than the individual responsible for the general ledger and should include adequate supplementary documentation.

At the current time adjusting/correcting journal entries are all prepared by the individual responsible for maintaining the general ledger. We also noted some journal entries that were made with no explanation and/or supporting documentation attached. To increase controls all journal entries should be periodically reviewed and initialed for approval by someone other than the individual responsible for maintaining the general ledger. All journal entries should also be accompanied by full explanation and/or by reference to adequate supporting data.

The wages reported per the General Ledger should be reconciled to the quarterly Federal Form 941 reports.

It was noted that some contractors compensation was posted to the salary expense accounts. To ensure posting accuracy and proper reporting, a quarterly deposits reconciliation should be performed comparing wages reported per the Township's general ledger to wages reported on the Federal Form 941 as filed. Any differences should be investigated and necessary corrections made.

Controls over the utility billing system could be improved.

During our audit we noted that the person that collects payments from residents also has access to the utilities billing system. While no irregularities were noted, controls could be improved by limiting the individuals with cash collection responsibilities to "Read Only" access to the billing system.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2004 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the audit committee, administration and the Township Board of the Charter Township of Fort Gratiot, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

Stewart, Beauvais & Whipple

March 25, 2005